

UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Joseph T. Kelliher, Chairman;
Sudeen G. Kelly, Marc Spitzer,
Philip D. Moeller, and Jon Wellinghoff.

Northwest Pipeline Corporation

Docket No. RP06-416-000

ORDER ACCEPTING AND SUSPENDING TARIFF SHEETS SUBJECT TO
REFUND AND ESTABLISHING A HEARING

(Issued July 31, 2006)

1. On June 30, 2006, Northwest Pipeline Corporation (Northwest) filed revised tariff sheets under section 4(e) of the Natural Gas Act (NGA) proposed to be effective on August 1, 2006.¹ The proposed jurisdictional rates represent an approximate \$119.1 million increase in annual revenue requirements. The Commission accepts and suspends the revised tariff sheets for the full five-month statutory period to be effective on January 1, 2007, subject to refund and subject to the outcome of a hearing established by this order. In addition, the Commission denies Northwest's request for waiver of the Commission's regulations related to its Parachute Lateral rates, as discussed herein.

Background

2. Northwest's pipeline system extends from the San Juan Basin area of northwest New Mexico and southwest Colorado, through the states of Colorado, Utah, Wyoming, Idaho, Oregon, and Washington, to a point of termination at the U.S./Canadian border near Sumas, Washington. Northwest's system is comprised of approximately 4,100 miles of transmission and branch pipelines, and includes over 40 transmission compressor stations. Northwest owns a one-third interest in the Jackson Prairie Storage Project located in Lewis County, Washington, and owns and operates the Plymouth Liquefied Natural Gas Facility in Benton County, Washington. Additional storage service is provided to Northwest by Questar Pipeline Company from the Clay Basin Storage Project located in Daggett County, Utah. Northwest renders firm transportation and storage service to various local distribution companies, gas marketers, industrial end-users and other pipeline customers.

¹ See the Appendix to this order.

3. Northwest asserts that many circumstances have changed on its pipeline system since its last rate proceeding in Docket No. RP96-367 approximately ten years ago,² and that the revenues recovered from its currently effective rates are inadequate to recover its projected cost of service. Northwest seeks an increase in its rates to reflect an overall cost of service of \$441,478,087, and various changes to its billing determinants -- including annual throughput of 801,353,958 Dth -- resulting in an increase in revenues from jurisdictional services of \$119,128,785 over what would otherwise be collected under existing rates.³ The proposed cost of service, rate and billing determinants, and rates in the instant filing are based on information for a test period consisting of a 12-month base period ended March 31, 2006, adjusted for known and measurable changes anticipated to occur during the nine-month adjustment period ending on December 31, 2006.

4. Northwest states the major reasons for its proposed \$441.5 million cost of service are: (1) an increase of approximately \$12.1 million for the incrementally-priced Parachute Lateral Project in Docket No. CP06-45, which is anticipated to be placed into service on November 1, 2006; (2) an increase of approximately \$61.6 million for the rolled-in Capacity Replacement Project in Docket No. CP05-32, which is anticipated to be placed into service on November 1, 2006; (3) an increase of approximately \$21.8 million for the rolled-in Rockies Displacement Project, net of approximately \$16.7 million in escrow funds which were used to partially offset the capital cost of the project; (4) an increase of \$7.1 million for the rolled-in portion of the Sumas-Chehalis and Columbia Gorge displacement facilities constructed as part of the Evergreen Expansion Project; (5) an increase of approximately \$16.9 million related to the increase in the rate of return and associated income taxes; (6) an increase of \$13.9 million in operation and maintenance expenses, including administrative and general expenses, including approximately \$5.9 million associated with a required accounting change to expense pipeline assessment costs, and; (7) a reduction of \$5.2 million to reflect the net effect of various other changes, including rate base decline as a result of depreciation, as partially offset by additional reliability and integrity-related expenditures.

5. Northwest has proposed a 13.6 percent rate of return on equity based on the pipeline's projected capital structure of 45 percent debt and 55 percent equity, a 7.74 percent cost of debt, and an overall rate of return of 10.96 percent. In addition,

² This filing was resolved in a rate settlement approved by the Commission in 1997. *Northwest Pipeline Corp.*, 81 FERC ¶ 61,242 (1997), *order on reh'g*, 83 FERC ¶ 61,001 (1998).

³ Northwest's existing rates include those rates established in its Docket No. RP96-367 rate proceeding and those rates for incrementally-priced expansion projects and cost of service projects which were certificated after the March 1, 1997 effective date of the Docket No. RP06-367 rate case.

Northwest proposes several changes to its current depreciation rates and net negative salvage rates. Among other changes, Northwest states that the evidence supports a depreciation rate of 2.93 percent for transmission plant (exclusive of the facilities associated with the Evergreen Expansion 15 and 25 year contracts and the Cost of Service Projects), and a net negative salvage rate of 0.94 percent for a combined rate of 3.87 percent. However, Northwest proposes a market adjustment to reduce the net negative salvage rate to 0.32 percent, but only to the extent that the combination of the depreciation and net negative salvage rates do not otherwise exceed 3.24 percent.

6. Northwest proposes a two-part straight-fixed variable (SFV) rate design applicable to Rate Schedule TF-1 (Large Customer) rates, but intends to maintain the levelized rate methodology for the Evergreen Expansion shippers and a one-part volumetric rate for Rate Schedule TF-1 (Small Customer) rates. Northwest states that the SFV rate design is a change from the rates that were implemented in its last NGA section 4 rate settlement, but that the SFV rate design is consistent with the Commission's directives in Order No. 636 and with the Commission approved rate design in Northwest's last litigated rate proceeding in Docket No. RP95-409. Furthermore, Northwest proposes to modify the rates for its Plymouth LNG Storage Facility interruptible storage service under Rate Schedule LS-2I to include new liquefaction and vaporization charges, in addition to the existing daily volumetric inventory charge.

7. Northwest asserts that it filed a certificate application in Docket No. CP06-45 for the construction and operation of the Parachute Lateral Project to transport gas supplies from the Parachute area near Rifle, Colorado to interconnect with the Greasewood Hub near Meeker, Colorado. Northwest states that its application is presently pending Commission action, but that it anticipates the Parachute Lateral will be placed into service on November 1, 2006, and therefore, the anticipated costs associated with the Parachute Lateral Project are included in its test period adjustments in the instant rate filing. Northwest filed a *pro forma* tariff sheet⁴ reflecting the proposed recourse rates that it included in Docket No. CP06-45 for the Parachute Lateral services. Northwest requests waiver of section 154.7(a)(9) or section 154.206 of the Commission's regulations to file a substitute actual tariff sheet reflecting the anticipated Parachute Lateral rates as shown on the *pro forma* tariff sheet when it files a motion to place its suspended rates into effect on January 1, 2007.

Notice of Filing, Interventions, and Protests

8. Notice of Northwest's filing was issued with interventions and protests due as provided in section 154.210 of the Commission's regulations (18 C.F.R. §154.210 (2006)). Pursuant to Rule 214, 18 C.F.R. §385.214 (2006), all timely filed motions to

⁴ *Pro Forma* Sheet No. 5 to FERC Gas Tariff, Third Revised Volume No. 1.

intervene and any motions to intervene out-of-time filed before the issuance of this order are granted. Granting late intervention at this stage of the proceeding will not disrupt this proceeding or place additional burdens on existing parties.

9. Protests were filed by the Canadian Association of Petroleum Producers, Avista Corporation, Cascade Natural Gas Corporation, Intermountain Gas Company, BP Energy Company and BP American Production Company, IGI Resources, Inc., Northwest Industrial Gas Users, Southwest Gas Corporation, Sierra Pacific Power Company, Northwest Natural Gas Company, and Indicated Shippers (jointly, Chevron U.S.A, Inc., ExxonMobil Gas & Power Marketing Company, a division of ExxonMobil Corporation, and Occidental Energy Marketing, Inc.).

10. In general, these protesters argue that Northwest has not justified its proposed capital structure, increase in rate of return on equity and level of business and financial risks, the projected decrease in mainline throughput, and the proposed depreciation rates. Further, protesters assert that there are numerous cost allocation and rate design issues in this case affecting various rate schedules that should be scrutinized in this rate increase filing. The protesters request that the Commission suspend Northwest's rate filing under section 4 of the NGA for the full five-month period and establish a hearing to investigate all elements of the claimed costs to establish just and reasonable rates.

Discussion

11. The Commission finds that the subject filing raises questions regarding issues that must be explored at hearing. These issues include, but are not limited to, the following: (1) appropriateness of the proposed cost allocations; (2) the level of the overall revenue requirement; (3) the level of depreciation and negative salvage rates; (4) the appropriateness of the proposed capital structure; (5) the appropriateness of the proposed overall and equity rates of return; (6) the impact of the roll-in of the various expansion projects, and; (7) the proposed rate design changes for Rate Schedules TF-1 and LS2I. Accordingly, the Commission accepts the tariff sheets listed in the Appendix and suspends them to be effective January 1, 2007, subject to refund and the outcome of the hearing established herein.

Request for Waiver

12. The Commission finds that Northwest has not shown good cause for granting waiver of the Commission's regulations. Northwest's request for waiver of section 154.7(a)(9) or section 154.206 of the Commission's regulations, and its request that the Commission include a statement in its suspension order so that it may file a substitute revised tariff sheet to reflect the anticipated Parachute Lateral rates when it files its motion to place its proposed tariff sheets into effect are not necessary. If the Commission

were to grant certificate authorization for the Parachute Lateral facilities in the Docket No. CP06-45 Parachute Lateral certificate proceeding, Northwest would be required to file actual tariff sheets prior to the commencement of service that reflect initial recourse rates as ordered in that proceeding. Moreover, Northwest is reminded that pursuant to section 154.303(c)(2) of the Commission's regulations,⁵ when it files its motion to place the instant rates into effect, it must revise its rates to exclude the costs associated with any facilities that will not be in service by the end of the test period, or for which certificate authorization has not been granted by the end of the test period.

Suspension

13. Based upon review of the filing, the Commission finds that the proposed tariff sheets have not been shown to be just and reasonable, and may be unjust, unreasonable, unduly discriminatory, or otherwise unlawful. Accordingly, the Commission shall accept such tariff sheets for filing and suspend their effectiveness for the period as set forth below.

14. The Commission's policy regarding rate suspensions is that a rate filing generally should be suspended for the maximum period permitted by statute where preliminary study leads the Commission to believe that the filing may be unjust, unreasonable, or that it may be inconsistent with statutory standards. *See Great Lakes Gas Transmission Company*, 12 FERC ¶ 61,293 (1980) (five-month suspension). It is recognized, however, that shorter suspensions may be warranted in circumstances where suspension for the maximum period may lead to harsh and inequitable results. *See Valley Gas Transmission, Inc.*, 12 FERC ¶ 61,197 (1980) (one-day suspension). Such circumstances do not exist here. Therefore, the Commission will accept and suspend the proposed tariff sheets listed in the Appendix, to be effective January 1, 2007, subject to refund and the outcome of the hearing established herein.

The Commission orders:

(A) The revised tariff sheets listed on the Appendix are accepted and suspended for five months to be effective January 1, 2007, subject to refund and the outcome of the hearing established herein.

(B) As discussed in the body of this order, the Commission denies Northwest's request for waivers of the Commission's regulations to implement the rates it proposed for the Parachute Lateral in the Docket No. CP06-45-000 certificate proceeding.

⁵ 18 C.F.R. §154.303 (2006).

(C) Pursuant to the Commission's authority under the Natural Gas Act, particularly sections 4, 5, 8, and 15, and the Commission's rules and regulations, a public hearing is to be held in Docket No. RP06-416-000 concerning the lawfulness of Northwest's proposed rates.

(D) A presiding administrative law judge, to be designated by the Chief Administrative Law Judge for that purpose pursuant to 18 C.F.R. § 375.304 (2006), must convene a prehearing conference in this proceeding to be held within twenty days after issuance of this order, in a hearing or conference room of the Federal Energy Regulatory Commission, 888 First Street, N.E., Washington, D.C. 20426. The prehearing conference shall be held for the purpose of establishment of a procedural schedule. The presiding administrative law judge is authorized to conduct further proceedings in accordance with this order and the Commission's rules of practice and procedure.

By the Commission. Commissioner Wellinghoff voted present.

(S E A L)

Magalie R. Salas,
Secretary.

Appendix

Northwest Pipeline Corporation
Docket No. RP06-416-000

Revised Tariff Sheets
Accepted and Suspended, Subject to Refund
To Be Effective on January 1, 2007

To FERC Gas Tariff, Third Revised Volume No. 1:

Thirty-First Revised Sheet No. 5
Third Revised Sheet No. 5-B
Sixth Revised Sheet No. 5-C
First Revised Sheet No. 5-D
Fourteenth Revised Sheet No. 6
Fifteenth Revised Sheet No. 7
Seventeenth Revised Sheet No. 8
Fifteenth Revised Sheet No. 8.1
Fifth Revised Sheet No. 91
Third Revised Sheet No. 91-A